The Commission to Study Maine's Hospitals

Summary of Key Findings from Presentations by Dr. Nancy Kane and the Maine Association of Health Plans November 22, 2004

What was the crux of today's presentations?

- The Commission heard from two presenters. The findings show that two-thirds of Maine's hospitals have a level of financial health and profitability that is greater than national benchmarks.
- The findings suggest that, because Maine's hospitals are paid more by insurers and consumers than are hospitals in Massachusetts and New Hampshire, Maine's financially healthy hospitals can cut costs and pass the savings on to Maine citizens.

How much more does hospital care cost in Maine than in other states?

- Insurers participating in a recent survey pay 31% more per hospital stay in Maine than they do in Massachusetts and New Hampshire. In other words, for every $1.00 that these insurers pay for a hospital visit in Massachusetts or New Hampshire, they pay $1.31 in Maine. For a CAT scan, these insurers pay 61% more in Maine than in Massachusetts.[i]

Who is Nancy Kane and what did say about the financial health of Maine's hospitals?

Nancy Kane, D.B.A., Professor of Health Policy and Management, Harvard School of Public Health, is an independent nationally recognized expert in hospital financial analysis. Her presentation had several components.

- **A Comparison of Maine, Northeast, and US Hospitals**
  - The median operating profit margin of Maine's hospitals was well above the Northeast Region's in all years over the ten year period 1993-2002.
  - Maine's median was above the US median in all years from 1996-2001.
  - Maine's median operating profit margin rose between 2002 and 2003. National and Northeast benchmarks are not yet available.
- **A Comparison of Hospitals Within Maine**
  - Dr. Kane divided Maine's hospitals into three groups: one with the highest profitability from 1999-2003, one with the lowest profitability, and one with medium profitability. She then analyzed a range of characteristics of those hospitals to examine what factors might explain differences in profitability (see chart at the top of the next page).
  - Hospitals in the high and mid-groups are performing well financially, with operating margins well above national medians. Hospitals in the low group, however, have tended to have negative operating margins. However none of these hospitals is about to "go under:" some are subsidized by other hospitals or by philanthropy; others are gradually eroding their asset base over time.

Non-Financial Characteristics of Financial Performance Groups

	Financial Performance Group		
	High	**Medium**	**Low**
Region:			
North	3 (15%)	8 (42%)	8 (42%)
Central	5 (63%)	3 (37%)	0
South	4 (44%)	1 (12%)	4 (44%)
Critical Access	0	2 (25%)	6 (75%)
Avg Staffed Acute Beds, 2001	140	101	52
Avg Acute Occupancy, 2001	56%	50%	38%

What did Dr. Kane say about WHY hospitals have different levels of financial health?

- The one-third of Maine's hospitals that are struggling financially appear to be struggling because of (a) low patient volume and (b) a high proportion of patients are suffering from chronic conditions which can be best prevented and treated in an outpatient setting.
- The data clearly show that percentage of patients covered by Medicare and Medicaid (as opposed to private insurance) does NOT explain differences between profitable and unprofitable hospitals.

What is the purpose of "voluntary targets on operating margins" and "standardized financial reporting" discussed by the Commission?

- The Commission has discussed the continuation of the Dirigo Health Reform Act's voluntary targets on operating margins. The purpose of these targets is to balance the need to bring savings to consumers while maintaining hospitals' financial health.
- The Commission has also discussed the importance of standardized financial reporting, which: (1) will provide a clear, understandable means to compare hospitals; (2) will ensure fairness in the application of targets to different hospitals, and; (3) can help the public – employers, consumers, and insurers – to understand the financial health of different hospitals, as well as the various reasons for varying levels of financial health.

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[i] Numbers are taken from a voluntary survey of health plan reimbursement for commercial business in Maine, Massachusetts, and New Hampshire, conducted by Milliman Consultants and Actuaries for the Maine Association of Health Plans. The survey was sent to Anthem Blue Cross Blue Shield of Maine and New Hampshire, Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, CIGNA HealthCare, and Aetna, Inc. All carriers except Aetna contributed data. Combined, these carriers represent the majority of commercial business in each of these three states. Actual ratios between states may be different than those reported for any or all of the following reasons, or others not listed:

- In performing this analysis, Milliman relied on data and other information provided by the contributors. Milliman did not audit the data. To the extent that the underlying data is inaccurate or incomplete, the compilation of results would similarly be inaccurate or incomplete.
- Data collection and reporting within each of the companies and their systems may not be exactly equivalent. To the extent that the methods of counting services, assigning diagnoses, adjusting claims, etc. are different among the carriers, overall results could be affected.
- Not all carriers in each state contributed data. If the average charge for the noncontributing carriers is materially different than reported by these major carriers, overall results could be affected.
- Provider contracts and reimbursement arrangements may have changed since 2003.
- Cost estimates were as of the date reported for a given carrier, ultimate claim costs may not be known for certainty until a significant passage of time.

Additional detail and discussion are available in Milliman's report, available at www.dirigohealth.maine.gov.